PREVEA CLINIC

July 22, 2002

Governor McCallum
115 E. State Capital
Madison, WI 53702

Dear Governor McCallum:

Thank you for the opportunity to provide feedback at your listening session pertaining to healthcare inflation and cost and quality issues in healthcare. These are critically important issues for providers, employers and the community. Better understanding of cost and quality issues have the potential to improve the health of our communities as well as to slow the rate of healthcare inflation. Efforts such as these listening sessions should be commended.

The causes of healthcare inflation have been described in many places. I recently had the opportunity to take a healthcare economics course through the University of Wisconsin Medical School. In this course, Tim McBride (an Economist from St. Louis University) stated that real per capita health care costs have been increasing at approximately 4.5% annually above the general inflation rate. Unless healthcare costs are brought under control to the point where they are at the general inflation rate, they will continue to comprise a greater and greater share of incomes, and of the GDP. One could argue that in a civilized society as methods of production become more and more efficient we should spend a greater percentage of our income on healthcare, so we do not need to be right at the general inflation rate. However the rate of inflation over the past 30 years is clearly not affordable to the general population. Unfortunately medical inflation appears to be on the verge of increasing dramatically again over the next few years.

Professor McBride outlined a number of factors that contribute to health care inflation above the general inflation rate. He attributed 0.5% to the aging of the population. As we age, we have greater healthcare costs, and the population as a whole is aging. Professor McBride attributed 0.5% to increases in the incomes of consumers. In other words, health care is a normal good, so when income rises so does health care spending. Provider price increases caused approximately 1.2% inflation. He noted that approximately a quarter of provider increases are for increases in quantity, and improvements in medical quality but the rest of the provider increases is unclear. I would add that physician salaries have remained flat. Another driver in health care inflation is insurance-induced demand, which causes 0.5% of the health care inflation. The remaining 1.8% of the health care inflation is due to unexplained causes. Professor McBride estimated that 40% of this 1.8% (0.7%) has been attributed to improvements in technology.

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I would argue that technological innovation in health care is vastly overrated. Empirically, the United States health care system has the highest utilization of medical technology in the world. As noted above, our health care system costs are far and away the highest in the world. The problem is that we do not get corresponding improvements in our health as a result of these investments in technology. By any major health measure such as life expectancy, mortality rates, and infant mortality rates we lag the rest of the industrialized world. Our investment in technology does not seem to be paying off. The problem is that we do not utilize technology in effective ways. For example, there have been recent studies questioning such things as hormone replacement therapy and certain types of arthroscopic knee surgery. Both of these procedures were widely accepted. The problem was there had not been studies that clearly showed that they were effective. When studies were done, they were shown to be ineffective and potentially harmful to patients. Clearly we could be allocating these dollars in a more cost-effective manner. Because of insurance-induced demand, there is less incentive to utilize the more cost-effective tools. This is further complicated by physician-induced demand. In this circumstance, physicians have the best understanding of the patient needs. Unfortunately, the incentives for physicians are aligned with more expensive tests and procedures. This is further compounded by medical training that states that physicians must do "everything" for their patients, and by the medical malpractice system that punishes physicians that have bad outcomes and forces them to practice "defensive medicine." This is the practice of doing unnecessary tests to protect against a malpractice suit. Without some sort of check and balance on unnecessary spending, the natural evolution causes everyone to believe they have a "right" to all tests whether they are proven or not. To me, the two main challenges regarding technologic innovation will be how to maintain innovation in health care at an affordable cost, and how to limit innovation of new technologies to those that are proven to improve health outcomes at the population level. These two challenges are probably closely intertwined.

One method for accomplishing this is through providing incentives to providers for improved outcomes. Ultimately physicians are in the best position to make the best decisions for their patients. Making sure that physicians are providing high quality care is critical, and providing incentives for them to do so is one means of accomplishing this. Currently, there is less incentive to provide quality care than one might think. Patients cannot always tell whether they received excellent care. Broader measures looking at outcomes that are fair and meaningful are complicated to develop and implement. Wellpoint, an insurer in California has probably developed such a system as well as anyone, but such systems still need refinement.

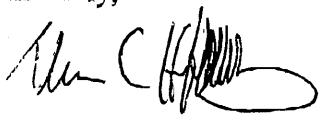
Ultimately moving more towards preventive health strategies, and patient safety initiatives are likely to help significantly. In addition, physicians need to take a leadership role and be more conscientious about using evidence-based methods of caring for their patients whenever possible. This means doing less for patients at times when there is considerable pressure to try to do something to improve the health of the patients that they are caring for. The medical community needs to continue to sort out which

therapies are effective, and avoid those therapies that add cost to healthcare, but provide little benefit for patients. Further research in this area is critical.

Finally I would add that we need to consider some sort of health care rationing. Our current system causes health care rationing, however the rationing occurs based upon the ability to pay. I think that most people would agree that we should not be rationing health care based upon the ability to pay. The fundamental issue here is that we cannot afford to provide everything to everyone in terms of healthcare. The explosion in medical technology and medications and other techniques have gotten to the point that we cannot afford to provide all the health care services available to everyone that needs them. Finding a more thoughtful way of allocating these resources is critical. This will require further listening sessions such as these and other forums where this topic is discussed.

Thank you again for this opportunity to provide input on the health and well-being of the people of this state.

Sincerely,



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